BILL # SB 1223 **TITLE:** business personal property tax; exemption

SPONSOR: Leff **STATUS:** As Introduced

PREPARED BY: Hans Olofsson

FISCAL ANALYSIS

Description

Under current law, business (Class 1) and agricultural (Class 2) personal property is exempt from taxation up to a maximum amount of $50,000 in full cash value per taxpayer. The amount is adjusted annually for inflation and is currently $57,632. This bill would increase the maximum amount of this exemption to $150,000. In addition, SB 1223 would grant businesses an additional month to file their personal property statement (May 1 instead of April 1).

Estimated Impact

Based on property valuation data furnished by the Department of Revenue (DOR), SB 1223 could have a General Fund cost of $5.6 million beginning in FY 2008. This estimate could be understated due to current data limitations. The bill would reduce statewide net assessed valuation (NAV), which would result in an increase of the state's K-12 education formula cost. However, the fiscal impact resulting from the NAV loss could be offset by reducing the cost of automatic school tax rate reductions under the state's truth-in-taxation (TNT) provisions. The net General Fund cost after accounting for the school tax rate reductions would be an estimated $0.9 million beginning in FY 2008.

Analysis

According to DOR, if this bill had been in effect for FY 2005, the statewide property tax base would have been reduced by 0.26%. For FY 2008, when the $150,000 exemption would first become effective, a 0.26% reduction would correspond to a statewide NAV loss of $(144.8) million.

DOR noted that their NAV loss estimate was somewhat uncertain owing to some database limitations. Under state law, each business is allowed only one exemption regardless of whether that company owns one or more locations in Arizona. For example, although there are several hundred Circle K convenient stores in the state, the corporation still receives no more than one $50,000 exemption. Each of a company's business locations is assigned a tax account. Thus, for DOR to provide an accurate estimate of the NAV impact of raising the exemption amount, they would need to match up all the accounts in their database with the corresponding taxpayers. However, such database capabilities are currently not in place.

Instead, DOR is only able to match one account to each taxpayer. Because of the limitation of this method, the true NAV impact is likely to be understated to some degree. For example, assume that a company owns 2 business locations in the state each with personal property valued at $100,000, for a total of $200,000. If the exemption were increased to $150,000, DOR's method would only show a NAV impact of $100,000 for this company since only one of its 2 accounts would be matched to the taxpayer. In other words, this method would understate the NAV loss by $50,000 since this company in reality would be able to claim $100,000 for one tax account and $50,000 for the other account.

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated through local property taxes. The state also pays 37% (in FY 2008) of residential property taxes through the Department of Education's Homeowner's Rebate program. By reducing NAV by $(144.8) million in tax year 2007, the bill will result in a direct increase of the state share of K-12 funding by $5.6 million in FY 2008. This estimate includes the net impact of both Basic State Aid and the Homeowner's Rebate.

The NAV reduction under SB 1223 will also generate savings in the cost of the state's Truth in Taxation (TNT) program. TNT reduces the QTR and county equalization tax rate to offset growth in existing property values. This reduction occurs automatically unless the Legislature decides to forego the TNT adjustment. For FY 2008, the school tax rate is expected to be reduced by 10.9¢ under existing statutes. However, the lower NAV under SB 1223 would result in the tax rate reduction being 0.9¢ less than under current law. The higher QTR under the bill will reduce the net General Fund cost increase from $5.6 million to $0.9 million in FY 2008, which constitutes a TNT saving of $(4.7) million.

The proposal will also affect state General Fund revenues. Although the state property tax was repealed in 1996, the General Fund still receives property tax revenues from unorganized districts and school districts that levy the minimum qualifying tax rate. The impact on state revenues could not be determined but is expected to be small.

As noted above, the fiscal impact of this bill depends on whether the TNT impact is included or not. In the absence of a TNT adjustment, it is estimated that the cost to the General Fund, beginning in FY 2008, will be about $5.6 million. However, if the QTR is adjusted to account for TNT, the bill's General Fund cost would be limited to $0.9 million.

Local Government Impact

This bill would shift the tax burden to property owners not affected by this legislation and/or result in property tax losses for local governments.

2/10/06